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May 6, 1985

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GOVERNMENT
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Honorable John Vasconcellos, Chairperson
Assembly Ways and Means Committee

Attn: Mr. Sam Yockey, Chief Consultant (2)

Honorable Alfred E. Alquist, Chairperson
Senate Committee on Budget and Fiscal Review

Attn: Mr. Steve Larson, Staff Director (3)

MAY REVISION EXPENDITURE REPORT

On March 18, 1985, the Department of Finance provided you with an update on the status of the General Fund, including Finance Letters issued through that date. The enclosed May Revision Expenditure Report gives a further update of expenditures incorporating proposed Finance Letter adjustments for enrollment, caseload and population. The Administration is currently assessing the revision to the revenue estimate for the General Fund. The May Revision Revenue Report, and any Finance Letters that may be submitted in conjunction with revenue revisions, will be submitted to the Legislature by May 13.

The combination of enrollment, caseload, population and Finance Letter adjustments reported in the May Revision increases expenditures in 1984-85 by $104.1 million and expenditures in 1985-86 by $100.2 million. In addition, we have recognized legislation which increases appropriations in 1984-85 by $71.5 million and will reduce appropriations by $40 million in 1985-86. These adjustments are equivalent to one-half of one percent of the General Fund spending for the two-year period.

The March General Fund update and the May Revision of expenditures cumulatively show that authorized personnel years have declined by 545.8, bringing the personnel year level for the 1985-86 fiscal year to 227,342.5. This adjustment results primarily from revised estimates of the rate of increase in prison population.

If you have any questions or wish to discuss this report, I would be pleased to meet with you at your convenience.

Very truly yours,

JESSE R. HUFF
Director of Finance

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JESSE R. HUFF
Director of Finance

Enclosure

cc: Honorable William Baker, Vice Chairperson, Assembly Ways and Means Committee
Attn: Steve Rhodes, Chief Consultant
Honorable John Seymour, Vice Chairperson, Senate Committee on Budget and Fiscal Review
Attn: Lee Bennett, Principal Consultant
Honorable Pat Nolan, Assembly Minority Leader
Honorable James Nielsen, Senate Minority Leader
Honorable Bruce Bronzan, Chairperson, Assembly Subcommittee No. 1
Honorable Robert Campbell, Chairperson, Assembly Subcommittee No.2
Honorable Patrick Johnston, Chairperson, Assembly Subcommittee No. 3
Honorable Maxine Waters, Chairperson, Assembly Subcommittee No. 4
Honorable Bill Leonard, Chairperson, Assembly Subcommittee No. 5
Honorable Dennis Brown, Chairperson, Assembly Subcommittee No. 6
Honorable Walter Stiern, Chairperson, Senate Subcommittee No. 1
Honorable Robert Presley, Chairperson, Senate Subcommittee No. 2
Honorable Bill Green, Chairperson, Senate Subcommittee No. 3
Honorable Alan Robbins, Chairperson, Senate Subcommittee No. 4
Mr. William G. Hamm, Legislative Analyst (2)

B:0149P/3900N1

MAY REVISION

EXPENDITURE REPORT

CONTENTS


| | Page |
|---|---|
| General Fund Expenditures Budget Update | 1 |
| May Revision General Expenditure Summary | 2 |
| May Revision General Expenditure Detail | 3-23 |
| General Fund Financial Legislation | 24 |
| General Fund Deficiencies | 25 |

GENERAL FUND
EXPENDITURES
BUDGET UPDATE
1984-85 and 1985-86
(Dollars in Millions)

| | Amount | |
|---|---|---|
| | 1984-85 | 1985-86 |
| EXPENDITURES AS OF January 10, 1985 | $25,582.2 | $27,864.0 |
| Adjustments prior to May Revision | | |
| Deficiencies | -$5.8 | -- |
| Finance Letters | -- | 34.3 |
| May Revision Adjustments | | |
| Finance Letters and Expenditure Projections * | 104.1 | 100.2 |
| Financial Legislation | 71.5 | -40.0 |
| Total Adjustments | $169.8 | $94.5 |
| TOTAL EXPENDITURES | $25,752.0 | $27,958.5 |

*The 1985-86 figure includes the $9.5 million of General Fund savings related to the income disregard calculation of AFDC grants. This savings was originally reported to the Legislature in the March 18, 1985 Update Letter.

MAY REVISION
GENERAL FUND
EXPENDITURE SUMMARY
(Dollars in Millions)

| | 1984-85 | 1985-86 |
|---|---|---|
| Department of General Services | -- | $0.3 |
| Department of Housing and Community Development | -- | 3.0 |
| Department of Health Services--Public Health | -$7.4 | -5.2 |
| Department of Health Services--Medi-Cal | -16.7 | 144.2 |
| Department of Mental Health | -10.2 | -1.9 |
| Department of Developmental Services | -1.6 | -0.8 |
| Department of Rehabilitation | -6.5 | -7.6 |
| Department of Social Services | -5.4 | 54.3 |
| Department of Corrections | -14.5 | -46.7 |
| Department of Youth Authority | -- | -0.7 |
| Department of Education (K-12) | 118.9 | -13.2 |
| University of California | -- | 4.1 |
| California State University | -- | -1.7 |
| Community College--Apportionments | 10.6 | 16.2 |
| Assistance to Counties for Defense of Indigents | -- | 1.0 |
| California Exposition and State Fair | 1.7 | 2.4 |
| Tax Relief | -- | -8.4 |
| Local Government Financing | 17.8 | -6.2 |
| Bond Interest and Redemption | -0.3 | -25.6 |
| Payment of Interest on General Fund Loans | 4.0 | 10.0 |
| State Mandated Local Programs | 13.7 | -21.3 |
| Statewide -- Postage Rate Increase | -- | 4.0 |
| | $104.1 | $100.2 |

GENERAL FUND
EXPENDITURE DETAIL
1984-85 and 1985-86
(Dollars in Millions)

STATE AND CONSUMER SERVICES

| | | |
|---|---|---|
| Department of General Services--State Police | 1984-85 | -- |
| | 1985-86 | $0.3 |

Security is being increased by 9.5 PYs to provide additional coverage for the Supreme Court and other Constitutional officers located in the McAllister Street building in San Francisco. Coverage will include two officers per shift and 24-hour coverage of video monitors which will be installed in the building.

Department of Housing and Community Development

The Department of Housing and Community Development (HCD), with assistance from a number of State departments, recently completed a study of the homeless population in California. In addition to addressing the homeless's needs for emergency food, shelter and medical care, the report evaluated propective long-term solutions for housing the homeless. The most cost-effective option identified was rehabilitation of existing residential hotels. Residential hotel units are well matched to the needs of the homeless since many of the homeless are single individuals who cannot afford larger, more expensive housing. Furthermore, residential hotels are typically located in urban areas in close proximity to other social and health services which the homeless may need. The Administration is supporting the recommendation contained in HCD's study which calls for the appropriation of $3 million to rehabilitate 527 residential hotel units. A proposal to this effect is being forwarded to the Legislature in a Finance Letter.

| Department of Health Services--Public Health | | |
|---|---|---|
| | 1984-85 | -$7.4 |
| | 1985-86 | -5.2 |

In the current year, anticipated caseloads are down for the California Children's Services (CCS), the Genetically Handicapped Persons Program (GHPP), and the Child Health and Disability Program (CHDP). As a result the revised current year, estimated expenditures have decreased by $4,861,000 for CCS, by $580,000 for GHPP and by $1,931,000 for CHDP.

In the budget year, revisions for caseload population and COLA as well as technical adjustments result in a net reduction of $5.2 million. Population and COLA adjustments for the AB 8 program result in a reduction of $4,533,000 with technical adjustments further reducing the AB 8 program by $450,000. An adjustment to reflect current Medi-Cal rates for the County Medical Services Program portion of the Medically Indigent Adult (MIA) Program result in an increase of $4,026,000 and COLA adjustments will increase $194,000. Projected caseload for the California Children's Service will decrease so costs will be $3,382,000 less than projected in January, and COLA for CCS will be $886,000 less. Caseload for the Genetically Handicapped Person's Program is anticipating a slight caseload increase which will increase costs by $138,000 while technical adjustments for GHPP will reduce costs by $12,000. The Child Health and Disability Program has now reduced projections of caseload for a savings of $525,000, which is partially offset by COLA and technical adjustments increasing costs by $78,000

| Department of Health Services--Medi-Cal | | |
|---|---|---|
| | 1984-85 | -$16.7 |
| | 1985-86 | 144.2 |

In the current year, the deficiency contained in the Governor's Budget is down from $37.7 million to $21.0. This update includes: fiscal intermediary processing catch-up, hospital inpatient cost settlements, peer grouping, other real property, new appropriations, increased Federal funds, abortions, and anticipated reimbursements for prior year expenditures.

In the budget year, expenditures are up substantially due to: (1) court case settlements ($43.4 million); (2) March 1985 long-term rate increases ($42.0 million); (3) start-up of the Expanded Choice Program ($22.8 million ); (4) cost-of-living increase adjustments ($4.8 million) (5) county administration ($5.7 million); (6) fiscal intermediary ($1.1 million); and (7) all other ($24.4 million).

| Department of Mental Health | | |
|---|---|---|
| | 1984-85 | -$10.2 |
| | 1985-86 | -1.9 |

The primary change to the Department of Mental Health's budget reflects revised State hospital population projections for in-hospital patients. The resultant impact on the current year is a reduction in expenditures of $10.2 million. For 1985-86, these revised estimates result in a net total General Fund reduction of $1.9 million and 43.3 pesonnel years, based on: (1) a decrease in State Hospital judicially committed client population of 108 which results in a total reduction of $888,000 and 43.3 personnel years and (2) a technical General Fund overbudgeting error for the sex offender project at Atascadero State Hospital which results in a reduction of $967,000.

| | | |
|---|---|---|
| Department of Developmental Services | 1984-85 | -$1.6 |
| | 1985-86 | -0.8 |

This estimate reflects a current year savings of $1.6 million due to delayed implementation of Community Placement activities, and a net reduction of $.8 million in the budget year based on (1) a Regional Center caseload reduction of $2 million and 696 clients (2) a $1.6 million reappropriation for the community placement of 154 State Hospital clients and (3) related cost of living reductions of $.4 million.

| | | |
|---|---|---|
| Department of Rehabilitation | 1984-85 | -$6.5 |
| | 1985-86 | -7.6 |

The current and budget year revisions reflect a decrease in caseload for the Work Activity Program. The department estimated an average current year caseload of 14,162. Based on current year actual data this estimate has been revised to 12,782 clients (-1,380). In addition, the budgeted caseload level for fiscal year 1985-86 of 15,832 clients is reduced by 2,134 for a revised budget year caseload level of 13,698 clients.

| | | |
|---|---|---|
| Department of Social Services | 1984-85 | -$5.4 |
| | 1985-86 | 54.3 |

Current year expenditures are expected to decrease by $5.4 million. The net decrease results from the following factors: (1) reduced caseload for AFDC Family Group and Unemployed Parents ($7.1 million); (2) increased caseload for AFDC Foster Care ($8.0 million); (3) increases in child support collections ($13.8 million) primarily resulting from receipts from other states and basic collections, however, these increased collections require increased incentive payments ($1.9 million); (4) other AFDC caseload and program changes for increased costs ($9.1 million); (5) reduction in the SSI/SSP deficiency ($13.6 million) due to a reduction in the average grant, lower caseload, and increased Fiscal Liability payments; (6) a General Fund increase in the Social Services Program ($10.4 million) due to a shift from the projected $4.5 million savings in the January Budget to a net deficiency of $5.9 million (the change is due to increases in authorized hours of service per case for IHSS and other changes in the Social Services Program); and (7) an increase in the deficiency for the Special Adult Program ($117,000).

The revision to the budget year is a net increase of approximately $54.3 million based on: (1) savings in AFDC ($13.5 million) due to revised estimates of the $50 disregard for child support; (2) continuation of 95/5 for AFDC Foster Care throughout 1985-86 ($52.6 million); (3) increased AFDC-Foster Care caseload and average grants ($10.5 million); (4) increased child support collections ($8.4 million); (5) lower basic costs in SSI/SSP and increased caseload for net savings ($17.3 million); (6) reduced General Fund need for SSI/SSP due to resumption of continuing disability reviews ($9.1 million) and a General Fund offset due to additional Federal funds for time eligible refugees ($1.2 million); (7) increased General Fund cost ($11.8 million) due to lower Federal funds as a result of lower CPI for the January 1, 1986 COLA; (8) increased General Fund ($4.1 million) cost in SSI/SSP for two recently settled court cases; (9) increased costs in Social Services Programs ($7.0 million), and (9) increase in the cost-of-living item ($17.7) primarily due to change in CNI from 5.3 percent to 5.7 percent.

YOUTH AND ADULT CORRECTIONAL

Department of Corrections

| | |
|---|---|
| 1984-85 | -$14.5 |
| 1985-86 | -46.7 |

The $8.8 million current year support deficiency identified in the 1985-86 Governor's Budget has been eliminated primarily due to the use of institution savings totaling $16.7 million. These savings are the result of a decrease in the number of inmates from 47,810 to 46,810 (-1,000). The 1985-86 estimated expenditures are being reduced by $46.7 million and 1,347 positions (883.7 personnel years) to reflect:

1. a revised staffing plan for new prison activations (-$0.1 million and -12 positions, or -0.8 personnel years);

2. a decrease in the inmate population projection from 52,585 to 49,845 which is 2,740 less inmates than proposed in the Governor's Budget (-$50.4 million and -1,452.1 positions, or -976.8 personnel years); and

3. an increase of $2.5 million and 82 positions (58.8 personnel years) to accommodate the estimated increase in the parole and outpatient population from 27,565 to 30,665 (3,100 more parolees/outpatients).

4. An increase of $1.3 million and 35.1 positions/personnel year to restore Search and Escort positions at various institutions.

A 1984-85 deficiency augmentation of $2.2 million is being proposed for CDC's local assistance item. These funds are needed for the State's reimbursement to local governments for increased local detention costs.

Department of the Youth Authority

| | |
|---|---|
| 1984-85 | -- |
| 1985-86 | -$0.7 |

The 1985-86 Governor's Budget projected a ward population of 6,668 by June 30, 1986. Revised population estimates as of March 29, 1985 indicate a population of 6,575 for a decrease of 93 wards, requiring a budget reduction of -$1.4 million.

While there is a projected decline in the number of wards, Youth Authority's (YA) projected population of 6,675 is still 371 above the program capacity of 6,204. YA will accommodate this overcrowing by continued double bunking, and by restructuring the Social, Personal and Community Experience (SPACE) Re-entry Program, increasing the program's capacity from 19 to 45 beds. Funds for restructuring the SPACE program will come from existing resources. In addition, YA will lease a vacant, 60 bed Imperial County facility. The Imperial County lease will cost $1.2 million and will require $733,000 in additional funds, with the remaining funding to come from existing resources. YA will use this facility until the two new 100 bed living units at El Paso de Robles School and the Fred C. Nelles School are completed in approximately 1987-88. The net reduction for 1985-86 is $661,000 and 15.2 personnel years.

EDUCATION

| Department of Education (K-12) | | |
|---|---|---|
| | 1984-85 | $118.9 |
| | 1985-86 | -13.2 |

Estimated expenditures for K-12 Education are being increased by $118.9 million in 1984-85 and decreased by $13.2 million in 1985-86. These changes are composed of revisions to both total K-12 expenditure requirements and local property tax revenues. An overview of the revisions in expenditures and local revenue estimates for the current and budget year is presented in the sections that follow.

1984-85 Expenditures

In January, the Governor's Budget forecasted 1984-85 deficiencies of $68.9 million for district revenue limit apportionments, $1.3 million for county office of education apportionments, and $3.2 million for special education. Currently we are forecasting a deficiency of $177.7 million for K-12 district revenue limit apportionments, $5.2 million for county office of education revenue limit apportionments, and $9.1 million for special education. In addition, we are forecasting deficiencies of $244,000 for adults in correctional facilities and $65,000 for tenth grade counseling.

The major causes of the increase in district revenue limit apportionments are decreased local revenues ($115.7 million), increased reimbursements to districts for unemployment insurance costs ($9.9 million), the court decision affecting the Fullerton and Rowland districts ($15.2 million), required funding for the SB 813 necessary small schools adjustment ($2.4 million), prior year corrections ($5.0 million), and an increase in the number of "basic aid" districts with local revenues that exceed their revenue limits and therefore cannot be used to offset State apportionments ($3.1 million). These increased expenditure requirements are offset by:

1. Reduced requirements for the SB 813 supplemental summer school funding due to lower-than-expected participation ($17.8 million).

2. Reduced requirements for the SB 813 beginning teacher salary adjustment ($19.0 million).

3. Lower than expected average daily attendance ($4.0 million).

4. Other reductions ($1.7 million).

Estimated expenditures for county offices have increased due to decreased local revenues ($1.5 million), prior year corrections ($0.1 million), and increased average daily attendance ($2.3 million), primarily in the juvenile court school and pregnant minor programs.

The increase in the special education deficiency is due to an increase in base entitlements ($5.8 million) caused by shifts of instructional units from low-cost settings or low-cost education agencies to high-cost settings or high-cost education agencies; prior-year corrections ($1.1 million); and a decrease in the local general fund contribution ($1.7 million). These increased expenditure requirements are offset, in part, by increased reimbursements of $2.7 million.

In 1984-85, a $244,000 deficit occurred in the program for adults in correctional facilities. We previously reported our intention to fund this deficiency from an anticipated surplus in adult education. Since we no longer forecast this surplus, our May Revision includes $244,000 to fund the 1984-85 deficit within adults in correctional facilities.

The increase in funding for the tenth grade counseling program is required because actual 1983-84 tenth-grade enrollment was 3,250 greater than was previously forecasted.

1985-86 Expenditures

For 1985-86, the May Revision reflects decreased expenditures of $13.2 million. This is composed of decreased expenditures for district revenue limit apportionments ($53.2 million), and instructional materials ($1.2 million); and increased expenditures for home-to-school transportation ($2.7 million), county offices of education apportionments ($3.2 million), special education ($2.7 million), child nutrition ($1.7 million), tenth grade counseling ($455,000), adults in correctional facilities ($244,000), school improvement program ($5.7 million), and cost-of-living adjustments ($24.5 million).

The major causes of the decrease in district revenue limit apportionments are increased local revenues ($82.6 million), reduced requirements for the SB 813 beginning teacher salary adjustment ($13.0 million), increased PERS reduction ($1.1 million) and other reductions ($2.3 million). These reductions are partly offset by:

1. Increased apportionments of $30.3 million due to increased average daily attendance.

2. Increased apportionments for necessary small schools ($2.5 million).

3. Increased reimbursements to districts for increased unemployment insurance contributions ($9.9 million).

4. Increased General Fund expenditures due to an increase in the number of "basic aid" districts, whose local revenues exceed their revenue limits and therefore cannot be used to offset State apportionments ($3.1 million).

The instructional materials decrease is due to a reduction in our estimate of K-8 ADA ($1,238,000) and an increase in our estimate of enrollment in grades 9-12 ($85,000). Home-to-school transportation expenditures have increased due to prior year corrections ($2.3 million) and other adjustments ($0.4 million).

Estimated expenditures for county offices have increased primarily due to increases in average daily attendance for juvenile court school and pregnant minor programs. This increase ($4.1 million) is partially offset by an increase in local revenues ($0.9 million).

Forecasted 1985-86 expenditures for special education have increased due to the 1984-85 increase in base entitlements and decrease in local general fund contribution. These increases are offset, in part, by increased 1984-85 reimbursements and an increase in 1985-86 reimbursements from the 6.19 percent COLA provided to revenue limits for special day class ADA.

Based on the first 9 months of the 1984-85 fiscal year, it is estimated that there will be 309.1 million qualifying meals served in the child nutrition program during 1985-86. This represents a 6 percent increase above the number estimated by the Governor's Budget, increasing 1985-86 expenditures by $1,688,000 above the level previously estimated.

Actual 1984-85 tenth grade enrollment was 9,556 greater than was estimated by the Governor's Budget. This results in a required budget adjustment of $455,000 for the tenth grade counseling program.

Adults in correctional facilities, expenditures are being increased by $244,000 to reflect the increased base level of funding in 1984-85.

School improvement program expenditures are being increased because of revised enrollment and participation data. We estimate an additional $5.7 million is needed to fully fund the second year of the SB 813 expansion/equalization plan.

COLAs are being increased primarily because the statutory COLA index has increased from the 5.95 percent anticipated by the Governor's Budget to 6.19 percent. Other COLA changes have occurred because of changes to base expenditures, as described above.

| 1984-85 Local K-12 Revenues | | |
|---|---|---|
| | 1984-85 | ($119.2) |
| | 1985-86 | (-83.5) |

For the current year, K-12 local property tax revenues will be down $119.2 million from the Governor's Budget. Reduced revenues are due to:

1. Lower-than-anticipated collections of supplemental roll revenues. The Auditor General's Office has determined that $115.5 million in supplemental roll revenues will be collected in 1984-85. This is $92.2 million less than estimated in the Governor's Budget.

2. Reduction to schools in Los Angeles County. Adjustments made to property tax allocations by Los Angeles County reduced funding to schools by $29.3 million. Legislation is being sought to recover this money in 1985-86 and to restore the base.

3. An increase in anticipated Motor Vehicle License Coach fees ($2.5 million) and a decrease in Timber Tax collections ($0.2 million).

1985-86 K-12 Local Revenues

For the budget year, revised estimates indicate local tax revenues will be greater than those estimated in the Governor's budget by $83.5 million. Increases are due primarily to:

1. Revision of the Deparment's estimate of growth in local revenue from 9.6 percent to 9.8 percent. This increase is due mainly to growth in the State-assessed roll.

2. Supplemental roll collections. It is estimated that $179.8 million in supplemental roll revenues will be collected in 1985-86. This is an increase of $47.9 million over the Governor's Budget, primarily due to carryover of 1983-84 and 1984-85 activity.

3. Recovery of adjustments made by Los Angeles County. It is expected that the $29.3 million loss to schools in Los Angeles County in 1985-86 will be recovered. In addition, the base will be increased to correct for the 1984-85 reduction.

University of California (UC)

| | |
|---|---|
| 1984-85 | -- |
| 1985-86 | $4.1 |

It is now projected that 1985-86 undergraduate enrollment at the UC will be 98,839 full-time equivalent (FTE) students. This represents an increase of 952 FTE students over the level indicated in the Governor's Budget. The revised enrollment projections are based on actual enrollments for fall and winter quarters and applications for 1985-86.

California State University

| | |
|---|---|
| 1984-85 | -- |
| 1985-86 | -$1.7 |

Included in the 1985-86 Governor's Budget is $13,136,000 of expenditures from CSU's share of Lottery funds. The items include three components of the Minority Underrepresentation Program, three Teacher Education Program components and two Instructionally Related Computing components. Since the budget was published, it has been suggested that there are other expenditure items included in the budget and funded from the General Fund which would better meet the one-time and instructionally related criteria for Lottery expenditures.

It is proposed that there be a partial exchange of these expenditures between the General Fund and CSU's Lottery funds with no net increase in expenditures. The expenditures proposed from Lottery funds are:

A. New Items To Be Funded From Lottery

| | |
|---|---|
| 1. Instructional Equipment Replacement | $7,000,000 |
| 2. Master Teacher Stipends | 675,000 |
| 3. Master Teacher Scholarships | 504,000 |
| 4. Instructional EDP Workstations | 110,000 |
| | $8,289,000 |

B. Items To Be Continued As Funded From Lottery

| | |
|---|---|
| 1. Instructionally Related Computing | $4,037,000 |
| 2. Experimental Clinical Supervision Programs | 810,000 |
| | $4,847,000 |
| Total Expenditures | $13,136,000 |

The expenditures proposed for exchange which will now be funded from the General Fund are:

| | |
|---|---|
| 1. Summer Bridge Program | $3,080,000 |
| 2. Student Competence in Writing & Math | 3,972,000 |
| 3. Financial Aid for Minority Grad Students | 523,000 |
| 4. Clinical Practitioner & Professors | 364,000 |
| 5. Internal and External Evaluation | 350,000 |
| Total Expenditures | $8,289,000 |

Included in this proposal is for CSU's Lottery funds to be appropriated in the Budget Bill. Lottery funds for CSU should be an integral part of the Executive and Legislative budget process.

Related to the exchange of expenditures is a correction in the costing of the Student Competence in Writing and Math component. The number of faculty was miscalculated by utilizing semester workload factors in a formula that required annual ones. This resulted in $1,745,000 and 62 PYs in excess of need.

| Community College Apportionments | | |
|---|---|---|
| | 1984-85 | $10.6 |
| | 1985-86 | 16.2 |

Estimated expenditures for Community College (CC) apportionments are being increased by $10.6 million in 1984-85 and by $16.2 million in 1985-86. These changes are composed of revisions in estimates of both average daily attendance (ADA) and local revenues.

## 1984-85 Expenditures

There is no statutory requirement to fund current year deficits in community college apportionments. However, there are two deficiencies totaling $10.6 million that should be funded. One is lower than anticipated supplemental roll collections of $5.9 million. The other is reduced property tax revenue of $4.7 million due to the reallocation of property tax in Los Angeles (LA) County. These factors were unanticipated in the original local revenue estimate.

## 1985-86 Expenditures

For the budget year, GF expenditures have increased by $16.2 million. This is composed of increased base revenues of $9.5 million and increased COLA and equalization funding of $8.0 million. These increased costs are offset by a decrease of $1.8 million needed for anticipated growth.

Also included is an increase of $167,000 which will be added to the $31.7 million included in the Governor's Budget as one-time ADA loss factor funds. In order that funds may be more equitably distributed to CC districts, it is now proposed that these funds be allocated to cover 66 percent of the revenue loss for any district experiencing a 1984-85 loss of ADA.

The sources of revenues available to fund CC apportionments have also changed. Due to a revision in prior year revenue receipts, local taxes will be $2.3 million less than estimated in January. This decrease is offset by a $2.0 million increase in anticipated student fee revenue.

## Notification of 1984-85 Local Revenue

The Chancellor of the CCs has certified that, based on First Principal Apportionment (P1) reports, the amount of local revenue districts will receive in 1984-85, exclusive of West Kern which receives no State apportionment funding, is $438.6 million. At the time the Budget Bill (Chapter 258, Statutes of 1984) was signed, the Department of Finance (DOF) estimated local revenue collections to be $451.2 million. This estimate was $3 million less than the DOF May Revision figure due to revised supplemental roll estimates. The General Fund (GF) amount for apportionments was increased by $3 million to make-up the difference.

The figures certified do not reflect revised figures submitted by LA County and so do not take into account the reallocation of property tax. The certified figure also reflects only preliminary estimates for all local revenues submitted to the Chancellor by counties. Therefore, for purposes of calculating the amount of revenue available to CCs in 1984-85, DOF is using its current year May Revision figure of $432.4 million. The following table displays these amounts.

1984-85 Estimates of Local Revenue
(In Millions)

| | |
|---|---|
| 1984 May Revision | $454.2 |
| 1984-85 Budget as Signed | 451.2 |
| Figures Certified by Chancellor | 438.6 |
| 1985 May Revision | 432.4 |

These local revenue figures serve as the notification required by Chapter 565, Statutes of 1983.

| | | |
|---|---|---|
| Assistance to Counties for Defense of Indigents | 1984-85 | -- |
| | 1985-86 | $1.0 |

Based on recent experience, the State Controller's Office anticipates that claims submitted by local governments for reimbursement of costs incurred during 1985-86 will exceed the amount currently budgeted. We therefore are proposing that this budget be augmented in the amount of $1 million. These additional funds are not intended to fund payment of late claims for reimbursement of 1984-85 costs. We anticipate that any additional funding needed for reimbursement of 1984-85 costs will be included in the 1985 deficiency bill.

| | | |
|---|---|---|
| California Exposition and State Fair | 1984-85 | $1.7 |
| | 1985-86 | 2.4 |

Current year expenditures are projected to exceed Cal Expo's revenues by $2.4 million. The Administration proposes to deal with this deficiency by supporting special legislation (SB 207-Greene) which would appropriate $704,000 from the surplus money in the sinking fund account in the Public Building Construction Fund and $1,696,000 from the General Fund. Without this deficiency augmentation, Cal Expo would not be able to meet their current financial obligations.

For the budget year, the administration proposes to increase the expenditure authority by $2.4 million (General Fund). This augmentation will be used to fund $1.0 million for deferred maintenance and recognize a shortfall of $1.4 million in their operating budget.

Tax Relief

| | |
|---|---|
| 1984-85 | -- |
| 1985-86 | -$8.4 |

Based on revised estimates, budget year expenditures for various Tax Relief programs are being revised downward by $8.4 million. The fiscal subcommittees of both houses of the Legislature have adopted these changes.

| | | |
|---|---|---|
| Local Government Financing: Special Supplemental Subventions | 1984-85 | $17.8 |
| | 1985-86 | -6.2 |

Increases in the Business Inventory Exemption base for cities, multi-county districts, and redevelopment agencies plus lower-than-anticipated supplemental roll collections result in an expenditure of $15.8 million more than estimated in the Governor's Budget. Recovery of supplemental roll cash flow losses in 1985-86 will reduce expenditures by $8.0 million. An adjustment of the estimate of base business inventory subventions which are the basis for the special supplemental subventions received by cities and certain districts will result in expenditures increasing by an additional $2 million in 1984-85 and $1.8 million in 1985-86. Funding for this item is continuously appropriated.

| | | |
|---|---|---|
| Bond Interest and Redemption | 1984-85 | -$0.3 |
| | 1985-86 | -25.6 |

The estimated expenditures for this program are based upon the debt service needs of the various general obligation bond programs. The 1985-86 Budget estimates included: (1) the actual current and budget year costs of bonds issued through December 31, 1984; and (2) the estimated current and budget year costs of bonds expected to be sold on or after January 1, 1985. Delays in the sales of these bonds, however, have reduced the estimated expenditure needs for both years. In addition to these adjustments, the estimated budget year expenditures were reduced by $3.5 million to correctly reflect provisions of the Hazardous Substance Cleanup Bond Act of 1984. These provisions specify the use of non-General Fund resources for the Cleanup Bond debt servicing needs.

| | | |
|---|---|---|
| Payment of Interest on General Fund Loans | 1984-85 | $4.0 |
| | 1985-86 | 10.0 |

The adjustments to this program primarily reflect revised estimates of redemptions for the extendable term revenue anticipation notes. These additional costs will be more than offset by the additional General Fund earnings attributable to the nonredeemed notes.

State Mandated Local Programs (9680) — 1984-85 $13.7; 1985-86 -21.3

Current Year (1984-85)

The State Controller has reported deficiencies in the last three Budget Acts (and claims bills) as follows:

| | Counties | School Districts, Cities - Special Districts | Totals |
|---|---|---|---|
| 1984-85 Appropriations | $7.6 | $3.2 | $10.8 |
| 1983-84 " | 8.8 | 10.3 | 19.1 |
| 1982-83 " | -- | 0.2 | 0.2 |
| | $16.4 | $13.7 | $30.1 |

A special provision in Item 9680 allows the 1984 Budget Act appropriation to be increased, after notice to the Legislature, to pay prior-year claims. Thus, we could provide notice that we need to increase the Item by $30.1 million. We propose, however, to increase the Item by only $13.7 million for school districts, cities, and special districts and offset the $16.4 million for counties with the savings which counties will receive by virtue of Section 56.9 of Chapter 268/84 (the 1984-85 Trailer Bill), the increased State share of AFDC-BHI costs, (estimated at $58 million for 1985-86).

Budget Year (1985-86)

Except for several new programs funded through the Budget for the first time, the 1985-86 Budget is essentially the same level as the 1984-85 Budget. Since the 1984-85 Budget is deficient by $10.8 million, as indicated above, we are assuming that the 1985-86 Budget will also be deficient in that amount plus another $1 million or $11.8 million. That figure is divided equally at $5.9 million for counties and $5.9 million for other local entities. We are proposing, however, to request an augmentation for only the schools, cities and special districts' $5.9 million and to offset the counties' $5.9 million, along with the $27.2 million already in the Governor's Budget for counties, against the Section 56.9 savings. The proposed changes to the 1985-86 Budget can be summarized as follows:

| | |
|---|---|
| Increase for schools, cities, special districts | +$5.9 |
| Reduction in budgeted funds for counties | -27.2 |
| Net Change | -$21.3 |

Impact on Counties (Information only)

The total impact of offsetting counties costs against the Section 56.9 savings is summarized as follows:

| | |
|---|---|
| Withheld augmentation for 1982-83 through 1984-85 deficiencies | $16.4 |
| " " " 1985-86 deficiencies | 5.9 |
| Reduction in funds in 1985-86 Governor's Budget | 27.2 |
| Total | $49.5 |

| | | |
|---|---|---|
| Statewide -- Postage Rate Increase | 1984-85 | -- |
| | 1985-86 | $4.0 |

The recent postage rate increases were not anticipated in development of the 1985-86 Governor's Budget. It is proposed that a $4.0 million General Fund budget act item be added for allocation to departments in the 1985-86 fiscal year. In addition to the amount reflected here for General Fund departments, items will also be included for special fund departments ($2.0 million) and non-governmental cost fund departments ($1.0 million).

| | | |
|---|---|---|
| Totals, Expenditure Detail | 1984-85 | $104.1 |
| | 1985-86 | 100.2 |

GENERAL FUND
FINANCIAL LEGISLATION
(In Millions)

| | Amount 1984-85 | 1985-86 |
|---|---|---|
| Department of Corporations | $63.0 | -$40.0 |
| AB 36 (Baker) and SB 20 (Boatwright) would provide appropriations in the current year for a State guarantee of a private loan or direct State loan to restore funds to account holders of Western Community Money Center (WCMC). WCMC is an industrial loan company closed by the Department of Corporations in April 1984 due to substantial loan losses. The 1985-86 Governor's Budget includes $40 million available to be appropriated through special legislation in 1985-86 for the same purpose. Because AB 36 and SB 20 would appropriate funds in the current year, the $40 million contained in the Governor's Budget for 1985-86 would not need to be appropriated, resulting in an expenditure savings for that year. | | |
| Department of Health Services | 8.5 | -- |
| Chapter 10, Statutes of 1985--Long Term Care Reform Bill. Appropriated $8.5 million for Medi-Cal costs which will result from increases in nursing hours and minimum wages in nursing homes. | | |
| Totals, Financial Legislation | $71.5 | -$40.0 |

General Fund Deficiencies
(Dollars in Thousands)

| Department | Governor's Budget | Non May Revision Adjustments | May Revision Adjustments* | Total |
|---|---|---|---|---|
| STATE OPERATIONS | | | | |
| Contributions to Judges Retirement | $90 | -- | -- | $90 |
| Department of Justice | -- | $291 | -- | 291 |
| State Controller | 238 | -- | -- | 238 |
| Secretary of State | 1,240 | -- | -- | 1,240 |
| State Treasurer's Office | 31 | -31 | -- | -- |
| California Debt Limit Allocation Committee | 79 | -26 | -- | 53 |
| Museum of Science and Industry | -- | 96 | -- | 96 |
| Department of Consumer Affairs: Division of Consumer Services | -- | 20 | -- | 20 |
| Department of Fair Employment and Housing | -- | 150 | -- | 150 |
| State Fire Marshal | -- | 94 | -- | 94 |
| State Fire Marshal | -- | 102 | -- | 102 |
| Department of General Services | 42 | -- | -- | 42 |
| Department of Alcoholic Beverage Control | 228 | -- | -- | 228 |
| Department of Forestry | 11,096 | -75 | -- | 11,021 |
| Department of Forestry | -- | 6,974 | -- | 6,974 |
| Department of Forestry | -- | 3,284 | -- | 3,284 |
| Department of Forestry | -- | 744 | -- | 744 |
| State Lands Commission | -- | 100 | -- | 100 |
| Department of Fish and Game | 124 | 538 | -- | 662 a/ |
| Department of Corrections | 7,564 | -7,564 | -- | -- |
| Department of Corrections | 1,214 | -1,214 | -- | -- |
| Department of Youth Authority | 4,878 | -- | -- | 4,878 |
| Department of Youth Authority | -- | 152 | -- | 152 |
| Youthful Offender Parole Board | -- | 22 | -- | 22 |
| Department of Education | 500 | -- | -- | 500 |
| University of California | 5,139 | -- | -- | 5,139 |
| Office of Criminal Justice Planning | 51 | -- | -- | 51 |
| Administration and Payment of Tort Liability Claims | -- | 450 | -- | 450 |
| Motion Picture Council | 20 | -- | -- | 20 |
| Agriculture Labor Relations Board | 157 | -157 | -- | -- |
| Department of Industrial Relations | -- | 800 | -- | 800 |
| State Compensation Insurance Fund | -- | 123 | -- | 123 |
| Department of Food and Agriculture | -- | 1,738 | -- | 1,738 |
| Commission on the State Government Organization and Economy | -- | 5 | -- | 5 |
| Military Department | 225 | -- | -- | 225 |
| Employee Compensation | 17,088 | -17,088 | -- | -- |
| Totals, State Operations | $50,004 | -$10,472 | -- | $39,532 |
| LOCAL ASSISTANCE | | | | |
| Contributions to Judges' Retirement Fund | $1,040 | -- | -- | $1,040 |
| Department of Health Services | 21,104 | -- | -14,442 | 6,662 |
| Department of Health Services | 16,574 | -- | -2,184 | 14,390 |
| Department of Health Services | -- | 3,708 | -- | 3,708 |
| Department of Social Services | 65,545 | -- | -13,570 | 51,975 |
| Department of Social Services | 40 | -- | 117 | 157 |
| Department of Youth Authority | 1,600 | -- | -- | 1,600 |
| Department of Corrections | -- | -- | 2,199 | 2,199 |
| Department of Education | 70,163 | -- | 112,742 | 182,905 |
| Department of Education | 3,200 | -- | 5,892 | 9,092 |
| Department of Education | -- | -- | 244 | 244 |
| Department of Education | -- | -- | 65 | 65 |
| Board of Governor's of the California Community Colleges | -- | -- | 10,600 | 10,600 |
| Assistance to Counties for Defense of Indigents | -- | 1,000 | -- | 1,000 |
| Tax Relief | 900 | -- | -- | 900 |
| Totals, Local Assistance | $180,166 | $4,708 | $101,663 | $286,537 |
| CAPITAL OUTLAY | | | | |
| Department of Fish and Game | $726 | -- | -- | $726 a/ |
| Totals Capital Outlay | $726 | -- | -- | $726 |
| Total Deficiencies | $230,896 | -$5,764 | $101,663 | $326,795 |

* Deficiencies related to the May Revision estimates are reflected in the summary totals for May Revision Changes on the Budget Update chart (Page 1).

a/ The deficiencies for the Department of Fish and Game are also included in separate legislation being carried by the Department of Fish and Game. The funding in this special legislation can be deleted if it is included in the annual omnibus bill (AB 1304).